Pay for Success in Washington

March 12, 2024

ENVIRONMENTAL POLICY INNOVATION CENTER

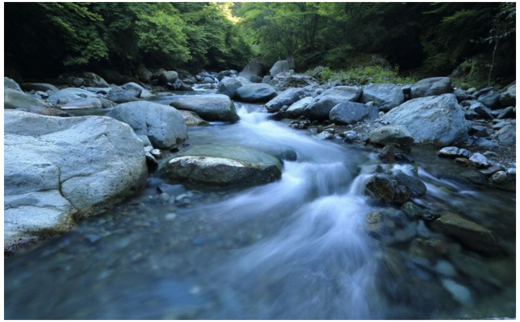
What we work on


Water Equity


Restoration


Technology


Endangered Species

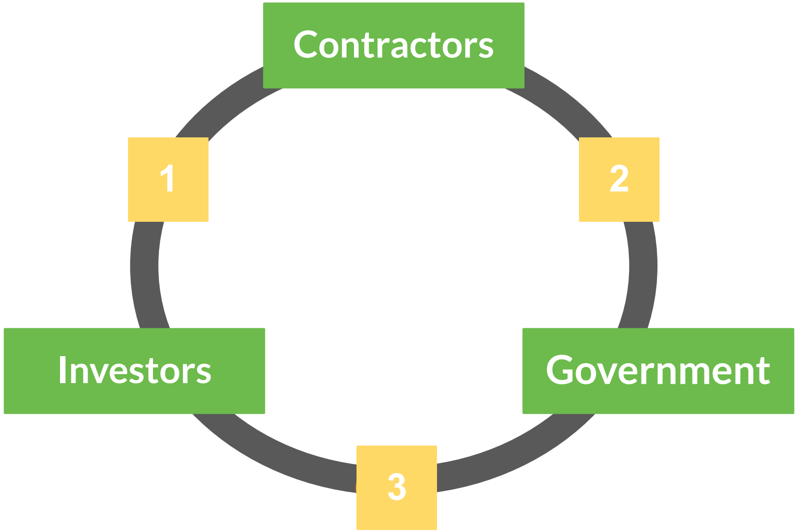

Procurement


Agriculture

Agenda

- What is Pay for Success?
- Example from Maryland
- Opportunities & Barriers in WA
- Potential Next Steps
- Discussion / Q&A

What is Pay for Success?



1 Investors provide upfront capital to scale outcomes-based projects

2 Contractors deliver environmental outcomes and cost savings that government values.

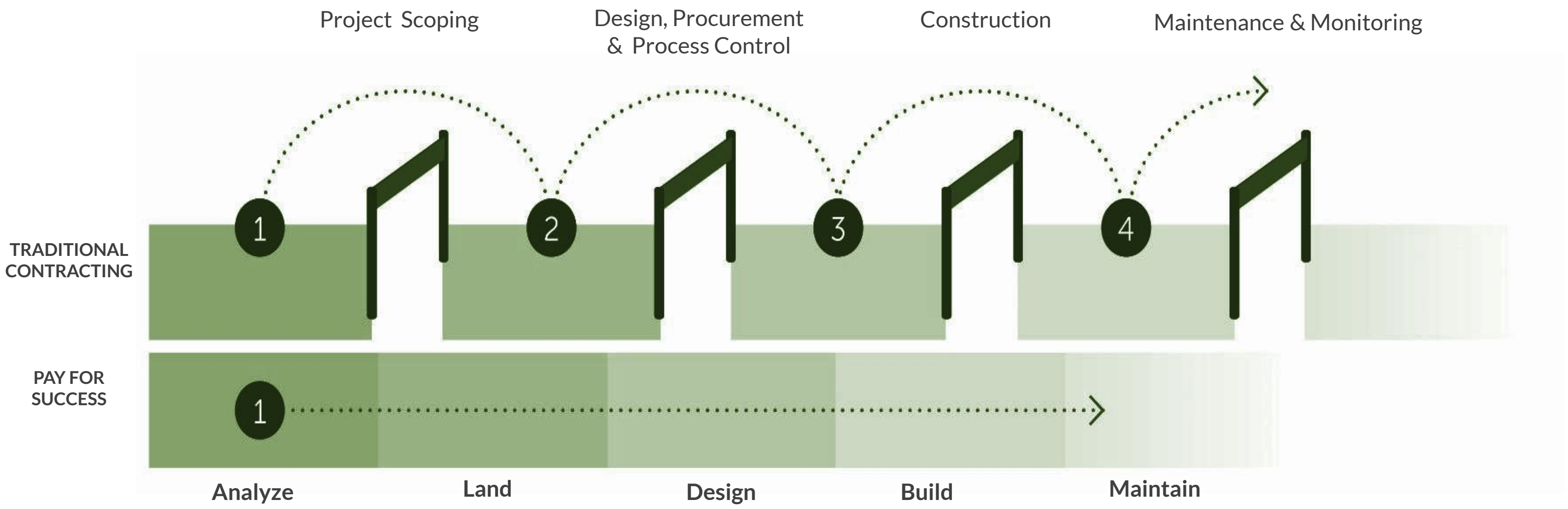
3 Government pays contractor (who in turn repays investors) once outcomes are verified

- Speeds things up
- Cheaper
- Frees up government time
- Guarantees success

[Photo Credit](#)

On the Ground

- Single contract makes the contractor responsible for all restoration work, resulting in cost savings
- This approach reduces risk, allowing the contractor to offer a performance guarantee for ecological success and a payment schedule that aligns with outcomes



Maryland

The country's leader in
environmental Pay for Success

Agenda Progress

Legislative Changes

Conservation Finance Act & Clean Water Commerce Act

CFA	CWCA
• Green and blue infrastructure can be financed the same ways as gray • Allows the state to more simply purchase environmental outcomes, only paying when projects successfully deliver • Creating a commission to look at ways to make permitting easier for ecological restoration and climate resilience projects • Prioritizing environmental justice outcomes	• $20M to purchase water quality outcomes • Clear, quantifiable outcomes • Agreement on outcomes measurement • Transparent priorities • Verification

Round One Results

Over $90M Requested | **$17.5M Funded**

Maximum of 100 points

Cost-effectiveness of Nitrogen Reductions (Maximum of 60 points)

1. Maximum of 60 points for the quintile of proposals with the lowest price per pound of nitrogen, 45 for the second lowest price quintile, 30 for the third lowest price quintile, and 15 for the fourth lowest quintile, and 0 for the most expensive per pound quintile

Co-benefits (Maximum of 40 points)

Co-benefits for each project can be received for all of the below categories, based on the applicant selecting the co-benefit in the application form and providing explanation and/or documentation to substantiate the selection.

2. 10 points for enhancing the mitigation of and/or resilience to the effects of climate change, including one or more of the items included on the application form.
3. 10 points for alleviating the environmental harms and risks borne by communities disproportionately burdened by environmental harms and risks as identified by a score of 80 or higher in at least one census tract using MDE's Environmental Justice Tracking Tool.
4. 10 points for contributing toward the attainment of local water quality standards, including one of the items included on the application form.
5. Phosphorous or sediment load reductions that can be counted toward the State's pollution reduction requirements under the Chesapeake Bay TMDL
   a. Maximum of 5 points for the quintile of proposals which reduce the most phosphorus, 4 points for the second highest reduction quintile, 3 points for the third highest reduction quintile, 2 points for the fourth highest quintile, and 1 for the quintile of applications with the least phosphorus reductions.
   b. Maximum of 5 points for the quintile of proposals which reduce the most sediment, 4 points for the second highest reduction quintile, 3 points for the third highest reduction quintile, 2 points for the fourth highest quintile, and 1 for the quintile of applications with the least sediment reductions.
6. 10 points for inclusion of natural filter practices as defined in 8-701 of the Agricultural Article, or agricultural ditch management practices as defined by the Chesapeake Bay Program.

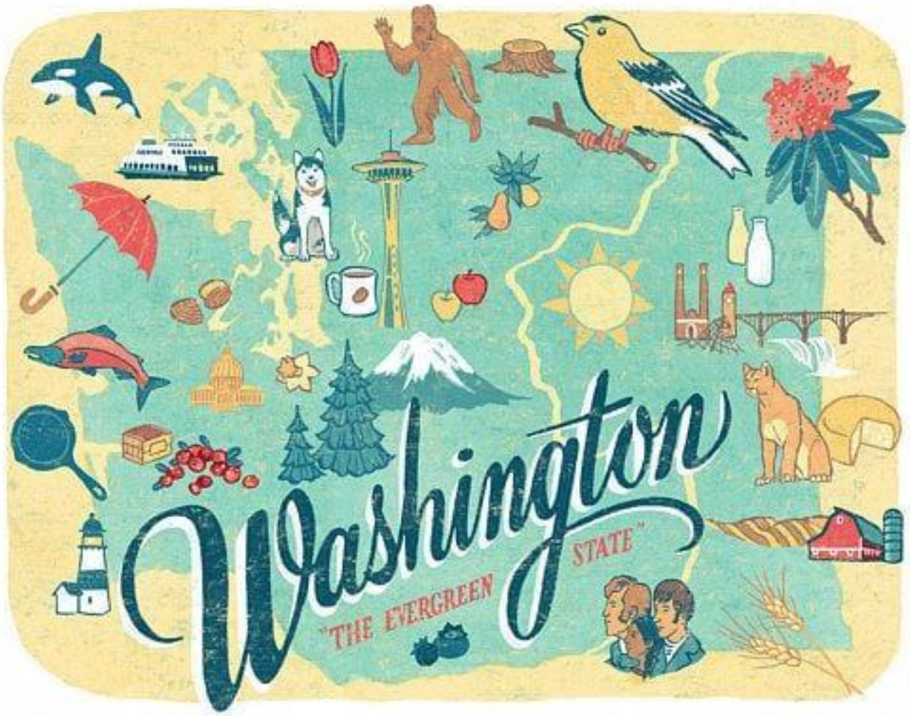
- Majority of points go to cost effectiveness (60/100)
- Clear co-benefits defined
  - Climate resilience
  - Positive change in historically marginalized communities
  - Local water quality standards
  - Other nutrient reductions
  - Certain BMPs

Learn More Here

Washington

Opportunities & Barriers

Agenda Progress



Opportunities

Landscape of State Policy

- Interest from state government
- Fairly ambiguous state statute
- Restoration is a clear priority
- Current grant-making isn't cutting it

Local Project Example: RainCity

- Seattle CBP3 with CIS
- Credits will be purchased post-construction (per acre)
- No statutory barriers identified in order to implement

Barriers Framework

Golden Rules of Pay for Success

1. Time it Right	4. Pay for What You Get
2. Don’t Sweat the Small Stuff	5. Scale to Win
3. Define Success	6. Ambiguous Legality & $ Restrictions

Learn More Here

Major Barriers & Potential Solutions

Time it Right

BARRIERS

- Ability to hold funds for more than 2 years
- Can't commit future funds

SOLUTIONS

- Short-term: find an NGO to "grant" the money
- Long-term: Find or create a fund

Scale to Win

BARRIERS

- Pay for Success is cost effective at **scale**
- May need to aggregate different funding sources

SOLUTIONS

- Consider this when determining appropriate pilot communities
- RFP scoring criteria

Legality & $ Restrictions

BARRIERS

- State statute is ambiguous.(This is also a good thing!)
- Funds sources should be evaluated

SOLUTIONS

- Consider funding source restrictions when determining pilot communities
- Work with State AG's Office and OFM for official opinion

Initial Next Steps

Confirm Legality

The state AG's office and/or OFM should give the official green light to move forward.

Start working on an actual pilot

Most of the other issues are dependent on the contracting entity. We suggest moving forward with a pilot to work out these problems.

- Document hurdles/successes and publish publicly
- Plan for extra time

Agenda Progress

Discussion / Q&A

grace@policyinnovation.oprg

Agenda Progress

Other Resources to Explore:

- Pay for Success as a way to deploy federal money quickly
- Pay for Performance Toolkit
- Case Studies
- Easy to Understand Analogy
- State Policy Gold Star: MD Conservation Finance Act